

REPORT ON EXAMINATION

ON

MAXUM INDEMNITY COMPANY

AS OF

DECEMBER 31, 2004

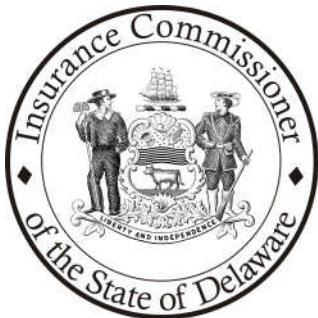
I, Matthew Denn, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of DECEMBER 31, 2004 of the

MAXUM INDEMNITY COMPANY

is a true and correct copy of the document filed with this Department.

ATTEST BY: *Antoinette Handy*

DATE: 15 MAY 2006



In Witness Whereof, I HAVE HEREUNTO SET MY HAND AND AFFIXED THE OFFICIAL SEAL OF THIS DEPARTMENT AT THE CITY OF DOVER, THIS 15TH DAY OF MAY 2006.

Matthew Denn
Insurance Commissioner

REPORT ON EXAMINATION
OF THE
MAXUM INDEMNITY COMPANY
AS OF
December 31, 2004

The above captioned Report was completed by examiners of the Delaware Insurance Department.

Consideration has duly been given to the comments, conclusions, and recommendations of the examiners regarding the status of the Company as reflected in the Report.

This Report is hereby accepted, adopted, and filed as an official record of this Department.

A handwritten signature in black ink, appearing to read "Matthew Denn", written over a horizontal line.

MATTHEW DENN
INSURANCE COMMISSIONER

DATED this 15TH Day of MAY 2006.

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March 6, 2006

SALUTATION

Honorable Alfred W. Gross
Chairperson, Financial Condition
Subcommittee, NAIC
120 West 12th Street, Suite 1100
Kansas City, Missouri 64105-1925

Honorable Matthew Denn
Commissioner of Insurance
State of Delaware
841 Silver Lake Boulevard
Dover, Delaware 19904

Commissioners:

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority No. 05.029, dated September 13, 2005, an examination has been made of the affairs, financial condition and management of the:

MAXUM INDEMNITY COMPANY

hereinafter referred to as "Company", incorporated under the laws of the State of Delaware as a stock company with its main administrative located at 6455 East Johns Crossing, Suite 325, Duluth, Georgia.

The report of such examination is submitted herewith.

SCOPE OF EXAMINATION

The last examination was conducted as of December 31, 2000. This examination covered the four year period from January 1, 2001 through December 31, 2004, and consisted of a general survey of the Company's business policies and practices, management, any corporate matters incident thereto, a verification and evaluation of assets and a determination of liabilities. Transactions subsequent to the latter date were reviewed where deemed necessary.

This report is presented on the exception basis. It is designed to set forth the facts with regard to any material adverse findings disclosed during the examination. The text will explain changes wherever made. If necessary, comments and recommendations have been made in those areas in need of correction or improvement. In such cases, these matters were thoroughly discussed with responsible company officials during the course of the examination.

The general procedures of the examination followed the rules established by the Committee on Financial Condition Examiners Handbook of the National Association of Insurance Commissioners (NAIC) and generally accepted statutory insurance examination standards consistent with the Insurance Laws and Regulations of the State of Delaware. In accordance with the aforementioned Handbook, an information systems desk review was performed by the consulting firm of INS Services, Inc.

HISTORY

The Company was incorporated on May 31, 1962, under the laws of Delaware. It began business on June 1, 1962, as a stock insurance company licensed to transact health, credit health, property, marine transportation and casualty insurance. The Company took over all the assets and assumed all the liabilities of the Lincoln Casualty Company, Wilmington, Delaware on June 1, 1962. Business of the Company was conducted under the name Lincoln Casualty Company of America from inception until March 7, 1973, when it was renamed Lincoln Insurance Company. On May 30, 1995, the Markel Corporation, an insurance holding company domiciled in the Commonwealth of Virginia, acquired all the issued and outstanding shares of Lincoln Insurance Company. Following the acquisition, the Company was placed into run-off with all agency contracts either terminated or renewed by another Markel-owned subsidiary, Essex Insurance Company. On December 23, 1997, PMA Capital Insurance Company (formerly PMA Reinsurance Corporation) acquired all of Lincoln Insurance Company's issued and outstanding shares from Markel Corporation and renamed the Company Caliber One Indemnity Company. Effective January 2, 2003, the Company was purchased as a clean shell by Northern Homelands Company and the current title adopted.

The Company is a diversified specialty insurance underwriting organization.

CAPITALIZATION

Common Capital Stock

All outstanding capital stock is owned by the parent, Northern Homelands Company. Northern Homelands Company is a privately held Minnesota corporation incorporated in 2002 and located in Minneapolis, Minnesota. Edward H. Hamm owns a majority of the voting securities of Northern Homelands Company. The Company's paid-in capital of \$54,311,709 consists of 35,000 shares of common stock at a par value of \$100 per share and \$50,811,709 of contributed surplus. All authorized shares are issued and outstanding.

DIVIDENDS TO THE SHAREHOLDER

The Company did not pay dividends to its sole shareholder during the four-year period under examination.

MANAGEMENT AND CONTROL

The bylaws provide that stockholders meetings shall be held on the third Monday of March of each year in Wilmington, Delaware or in such other city as designated by the Board of Directors.

The number of directors shall be not less than three (3) or more than eleven (11). Vacancies and newly created directorships may be filled by a majority of the directors then in office, though less than a quorum and the directors so chosen shall hold office

Maxum Indemnity Company

until the next annual election. The business of the corporation shall be managed by its board of directors which may exercise all powers of the corporation and do all such lawful acts and things as are not by statute or by the certificate of incorporation or by these by-laws, and as directed or required to be exercised or done by the shareholders.

The board may, by resolution, designate one or more committees, each committee to consist of two or more of the directors. Dividends may be declared by the Board at any regular or special meeting. They may be paid in cash, property or in shares of capital stock.

The following persons were elected to the Board of Directors on January 2, 2003 and were serving in that capacity at December 31, 2004:

<u>Name & Residence</u>	<u>Principal Occupation</u>
Gene George Gopon Highland Park, Illinois	Chairman of the Board of Directors of the Company; President and member of the Board of Directors of Northern Homelands Company, and Consultant to the Company
Edward Hersey Hamm Hobe Sound, Florida	Principal owner and Chairman of the Board of Directors of Northern Homelands Company
Edward Hersey Hamm, Jr. Hobe Sound, Florida	Vice President of the Company and Vice President and Treasurer of Northern Homelands Company
Randall Dean Jones Duluth, Georgia	President and Chief Executive Officer of the Company
Jerome Bernard Simon Minneapolis, Minnesota	Secretary of the Company and Northern Homelands Company

Maxum Indemnity Company

The bylaws state that the officers of the corporation shall be a President, Vice-President, Secretary and Treasurer and such other officers as may from time to time be chosen by the Board of Directors. The following persons were elected as Officers on October 5, 2004 and were serving in that capacity at December 31, 2004:

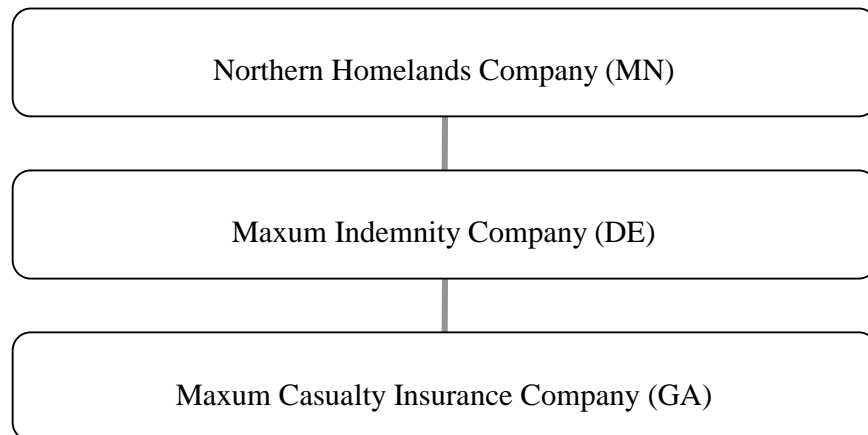
<u>Name</u>	<u>Office</u>
Randall D. Jones	President and Chief Executive Officer
Jerome B. Simon	Secretary
Steven C. Adams	Vice President and Assistant Secretary
Peter F. DeJesso	Vice President
James J. Fitzgerald	Senior Vice President
Rebekah B. Hutchings	Vice President
Charles H. Clemens, Jr.	Senior Vice President
Stephen A. York	Assistant Vice President
Karl A. Waite	Vice President
Douglas L. Hathaway	Vice President
George D. Sparks	Senior Vice President and Treasurer
Harley J. Franken	Executive Vice President and Chief Operating Officer
Nicholas Taube	Vice President
Anne C. Swiggum	Vice President
Edward H. Hamm, Jr.	Vice President

Maxum Indemnity Company

It was noted that written correspondence was submitted to the Delaware Department of Insurance in regards to the changes in officers and directors during the period under examination in compliance with Section 4919 of the Delaware Insurance Code.

HOLDING COMPANY SYSTEM

The Company is a member of an Insurance Holding Company System. The ultimate parent of the system is Northern Homelands Company, a Minneapolis, Minnesota corporation. The following is an organizational chart that reflects those entities as of December 31, 2004:



Copies of the "Form B Holding Registration Statements" filed with the Delaware Insurance Department, during the period under examination, were reviewed. It appears that the Company has complied with the provisions of Regulation 13 of the Delaware Insurance Code.

AGREEMENTS

Affiliate

There is a service agreement between the Company and its subsidiary, Maxum Casualty Insurance Company (MCIC) effective September 15, 2004. The Company will provide all underwriting, loss adjustment, investment and other general operating services to MCIC. The agreement is subject to the allocation terms as specified and agreed to in the written agreement.

Effective September 30, 2004, the Company entered into an "Intercompany Tax Sharing Agreement" with its parent, Northern Homelands Company and its subsidiary, MCIC. The companies wish to file a federal consolidated income tax return and have agreed to follow the terms as specified in the written agreement. The Company shall pay on behalf of its parent and subsidiary, on or before the due date for each consolidated return year including extensions, all taxes reported thereon.

The Company has an Enterprise System Rental Agreement dated December 30, 2003 with Edward H. Hamm, Director of the Company and majority owner of the Company's parent, Northern Homelands Company. The System is used for processing the Company's policies and claims.

The Company has a Consulting Agreement dated January 2, 2004, as amended November 1, 2004, with Gene G. Gopon, Director of the Company and President of Northern Homelands Company. The agreement states that Mr. Gopon will provide consulting services for customer relationship building, management development and other projects as the Company may request.

Maxum Indemnity Company

The Company has a reinsurance agreement with its wholly-owned subsidiary, MCIC. See the reinsurance section of this report for additional information.

Other Agreements

On January 1, 2003, the Company executed an Investment Advisory Agreement with Private Capital Management, Inc., a Minnesota corporation (Adviser). The Company appoints the Adviser as the Company's agent and attorney-in-fact with full power and authority to act with respect to the Account. The Company may at any time, upon 14 days' written notice to the Adviser, add to or remove assets from the Account. Pursuant to this agreement, the Company incurred total investment advisory fees of \$227,723 and \$223,323, respectively in 2004 and 2003.

The Company has other agreements with individuals to perform specific functions for the Company. These agreements were deemed immaterial and disclosure was considered unnecessary.

TERRITORY AND PLAN OF OPERATION

Territory

As of December 31, 2004, the Company was licensed in only one state, Delaware. The Company writes direct business in 44 other states and in the District of Columbia as an excess and surplus lines carrier with the largest volumes in Pennsylvania, Florida, California, Michigan, and Connecticut.

Plan of Operation

The Company is an excess and surplus-lines insurer focused on light-to-medium loss exposures which standard companies avoid writing. The Company markets its products through wholesale agents and brokers. Products consist of casualty business to include primary general liability, product liability and excess and umbrella coverage; property business to include primary property coverage if written in conjunction with small casualty business; and professional liability business such as architects and engineers, allied medical, and small miscellaneous service providers.

The Company produces business through professional surplus lines general agents who have limited quoting and binding authority. Additionally, the Company produces business through wholesale brokers which is underwritten by Company underwriters. These producers operate under either general agency contracts or broker agreements. The Company maintains control of the risks accepted by its general agents through restrictive underwriting guidelines that require many risks to be submitted to the Company underwriters before binding. In addition, bound policies are subject to review by Company underwriters for compliance with underwriting and policy issuance guidelines, producer binding authority and adherence to quoted rates and terms.

All policy files are maintained and processed through the Company's underwriting system and all reporting is done in the Company's administrative office accounting department.

Business Plan

The Company maintains extensive yearly business plans. The yearly plans provide a detailed analysis of each line of business; including key components, pricing, marketing and promotion, placement, producers and employees, support staff, how the line of business performed in the previous year versus the financial goals and projections for the current year, and finally, the critical factors that impact that line of business and must be addressed in the current year.

GROWTH OF COMPANY

The following information was obtained from the Company's filed Annual Statements and covers the four years subsequent to the date of the prior examination:

<u>Year</u>	<u>Admitted Assets</u>	<u>Surplus as Regards Policyholders</u>	<u>Net Premium Written</u>	<u>Net Income</u>
2004	\$84,505,848	\$54,400,433	\$22,504,304	\$1,100,463
2003	66,051,929	52,924,538	9,955,743	181,313
2002	26,844,152	26,844,432	6,896,349	(34,636,898)
2001	119,212,228	37,059,901	2,439,626	(3,657,785)

It is important to note in the above exhibit that 2003 and 2004 represent the Company under its present ownership and management. Assets, surplus, net premium written and net income prior to 2003 was the responsibility of former ownership and management. No business was brought forward at that date of sale. Growth over the most recent two-year period has taken the form of the following:

Maxum Indemnity Company

- A 28% increase in admitted assets.
- A 3% increase in surplus as regards policyholders.
- A 126% increase in net written premiums.
- A 507% increase in net income.

REINSURANCE

Assumed

Effective July 8, 2004, the Company assumed 100% of the business written under a quota share agreement with its wholly-owned subsidiary, Maxum Casualty Insurance Company. Total assumed premium from its subsidiary amounted to \$110,000 for 2004. The majority of the business written in Maxum Casualty Insurance Company is transportation business to include motor truck cargo and truck physical damage.

Ceded

The Company has a comprehensive reinsurance program that is designed to protect it against losses in all lines of business written. The Company's maximum total net exposure in any one risk, property or casualty, was \$500,000. In regards to its program, the Company utilizes automatic treaties that are negotiated by the Company with the various reinsurers through a reinsurance intermediary. The reinsurance intermediary responsible for handling these treaties and monitoring the reinsurers is Medical Reinsurance Company, LLC. The Company also has the option to purchase facultative reinsurance if its active treaties do not meet its reinsurance needs. Under the terms of the treaties, the reinsurer is obligated to accept ceded business, as long as it is issued in regards to the terms of the treaty.

Maxum Indemnity Company

The following is a summary of the various reinsurance treaties in place at December 31, 2004:

- **Quota Share** - risks identified with effective dates between January 1st and December 31st of 2004. The treaty provides for a 60% quota share of direct paid losses and allocated loss adjustment expenses on any one policy subject to a limit of \$1 million each loss, coverage and insured.
- **Casualty Excess of Loss** – risks identified with effective dates between January 1st and December 31st of 2004. The treaty provides that the reinsurer will be liable for 98% of the amount by which such ultimate net loss exceeds the Company's retention of \$1 million but shall not exceed \$5 million each coverage and insured plus a pro rata share of allocated loss adjustment expenses.
- **1st Catastrophe Excess of Loss** - risks identified with effective dates between July 1st of 2004 and July 1st of 2005. Business covered by this treaty includes risks classified as property and/or inland marine insurance business. The treaty provides that the reinsurer will be liable for 100% of the amount by which such ultimate net loss exceeds the Company's retention of \$500,000 but shall not exceed \$2 million each and every loss occurrence.

As noted above, as of December 31, 2004, the Company was actively ceding business to various reinsurers, including several Lloyds of London Underwriting Syndicates, pursuant to the listed contracts. The Company reinsures exclusively with authorized reinsurers.

The Company reported reinsurance recoverable on paid losses and loss adjustment expenses of \$101,773 and a total net recoverable from reinsurers of approximately \$35.1 million at December 31, 2004.

ACCOUNTS AND RECORDS

The accounts and records reviewed included an evaluation of the Company's operational and organizational controls. The areas evaluated included computer systems, accounting systems, organizational structures, and the processing structure. In general, it has been determined that the Company does have a sufficient level of controls in place for most of the above areas. The consulting firm of INS Services, Inc. (Services) performed an Exhibit C desk review of the Company IT operations. On December 6, 2005, Charles Clemens, Sr. Vice President of Information Technology, responded in writing to Services' findings and recommendations. Services found those responses to be detailed and given due consideration. Assuming that the Company is continuing to carry out its action steps specified therein, we have no further comment.

It is recommended that the Company continue to implement its action steps in response to the INS Services, Inc. findings and recommendations regarding the Company's IT operations.

During the course of the examination, the Company's books and records were reviewed and compared to reported items and values in the annual statements. No material discrepancies were noted. It was noted that the Company does not maintain an internal audit department.

Maxum Indemnity Company

FINANCIAL STATEMENTS

The following statements show the assets, liabilities, surplus and other funds of the Company, as determined by this examination, as of December 31, 2004.

Assets
Liabilities, Surplus and Other Funds
Underwriting and Investment Exhibit
Statement of Income
Capital and Surplus Account

With the exception of the Losses and Loss Adjustment Expenses accounts, write-ups on the individual accounts in the Notes to the Financial Statements section of this report are presented on the "exception basis". Only comments relative to adverse findings, material financial changes, or other significant regulatory concerns are noted.

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ASSETS
DECEMBER 31, 2004

Assets	Ledger Assets	Non- Admitted Assets	Net- Admitted Assets
Bonds	\$65,368,989		\$65,368,989
Preferred stocks	1,234,693		1,234,693
Common stocks	6,089,829		6,089,829
Cash and short term investments	2,154,822		2,154,822
Investment income due and accrued	752,454		752,454
Premiums and agents' balances in			
Course of collection	8,194,042	\$177,272	8,016,770
Amounts recoverable from reinsurers	101,773		101,773
Federal income tax recoverable	15,120		15,120
Net deferred tax asset	1,783,944	1,268,426	515,518
EDP equipment and software	1,594,434	1,390,356	204,078
Furniture and equipment	137,908	137,908	
Receivable from parent, subsidiaries and affiliates	3,061		3,061
Prepaid expenses	54,138	54,138	
Deductible receivable	<u>52,212</u>	<u>3,471</u>	<u>48,741</u>
Total Assets	<u>\$87,537,419</u>	<u>\$3,031,571</u>	<u>\$84,505,848</u>

The accompanying Notes are an integral part of the Financial Statements and Exhibits.

Maxum Indemnity Company

LIABILITIES, SURPLUS AND OTHER FUNDS
DECEMBER 31, 2004

		<u>Notes</u>
Losses	\$8,742,363	1
Loss adjustment expenses	5,103,398	1
Commission payable, contingent commissions	43,974	
Other expenses	571,964	
Taxes, licenses and fees	1,250	
Federal and foreign income taxes	0	
Unearned premiums	10,860,784	
Ceded reinsurance premiums payable	4,680,444	
Payable to parent, subsidiaries and affiliates	<u>101,238</u>	
 Total Liabilities	 <u>\$30,105,415</u>	
 Common capital stock	 3,500,000	
Gross paid in and contributed surplus	50,811,709	
Unassigned funds (surplus)	<u>88,724</u>	
 Surplus as Regards Policyholders	 <u>\$54,400,433</u>	
 Total Liabilities, Surplus and Other Funds	 <u><u>\$84,505,848</u></u>	

The accompanying Notes are an integral part of the Financial Statements and Exhibits.

Maxum Indemnity Company

UNDERWRITING AND INVESTMENT EXHIBIT
DECEMBER 31, 2004

Income:

Premiums earned	\$17,871,728	
Net investment income	1,858,266	
Net realized gains	145,231	
Other income	(7)	
Total Income		\$19,875,218

Expenses:

Losses incurred	7,409,108	
Loss expenses incurred	4,569,581	
Other underwriting expenses incurred	6,240,186	
Total Expenses		<u>18,218,875</u>

Net income before dividends to policyholders and federal income taxes		\$1,656,343
Dividends to policyholders		0
Federal and foreign income taxes incurred		<u>555,880</u>
Net Income		<u>\$1,100,463</u>

The accompanying Notes are an integral part of the Financial Statements and Exhibits.

CAPITAL AND SURPLUS ACCOUNT
DECEMBER 31, 2003 TO DECEMBER 31, 2004

Surplus as regards policyholders, December 31, 2003		<u>\$52,924,538</u>
Net income		1,100,463
Additions:		
Change in net deferred income tax	1,122,286	
Paid in surplus	350,000	
Total Additions		1,472,286
Deductions:		
Net unrealized capital losses	(29,535)	
Change in non-admitted assets	(1,067,319)	
Total Deductions		<u>(1,096,854)</u>
Change in surplus as regards policyholders for the year		<u>1,475,895</u>
Surplus as regards policyholders, December 31, 2004		<u>\$54,400,433</u>

The accompanying Notes are an integral part of the Financial Statements and Exhibits.

SCHEDULE OF EXAMINATION ADJUSTMENTS

There were no material adjustments to the Company's financial statement that warranted disclosure in this examination report.

NOTES TO THE FINANCIAL STATEMENTS

<u>(Note 1)</u>	<u>Losses</u>	<u>\$8,742,363</u>
	<u>Loss Adjustment Expenses</u>	<u>\$5,103,398</u>

INS Consultants, Inc. (INS) was retained and performed an independent analysis of the Company's gross and net loss and loss adjustment expense (LAE) reserves as of December 31, 2004.

The INS review of loss and LAE consisted of analyzing the Company's book of business by line of business on both a net and gross basis. The lines of business reviewed included other liability occurrence, other liability claims made, products liability occurrence, products liability claims made, commercial multiple peril, and special property. Based on the INS review of the net loss and LAE reserves are estimated to be adequate on both a gross and net basis.

The INS analysis employed standard reserving methodologies and techniques. Loss and LAE reserves are subject to errors of estimation arising from the fact that the ultimate liability for claims evaluated as of the evaluation date is dependent on future contingent events which cannot always be anticipated. The possible occurrence of such events, as well as the inherent uncertainty associated with statistical estimates, allows no

Maxum Indemnity Company

guarantee that the actual ultimate liability will be the same as the reserve levels at the evaluation date.

Due to the nature of the coverages written, i.e. third party liability in particular, and the fact that the Company has only recently begun writing business, these estimates of the reserve levels are subject to potentially significant variation.

INS did not address the collectibility of reinsurance recoverables. There would be a contingent liability should any of the reinsurers fail to fulfill obligations as stated in their contracts with the Company.

MARKET CONDUCT ACTIVITIES

We did not perform a market conduct review of the Company covered by the examination period. The Delaware Department of Insurance has a Market Conduct Division responsible for market conduct examinations.

COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

We noted ten examination recommendations in the prior examination report of December 31, 2000. The Company's compliance with prior examination recommendations was determined to be not applicable to this examination as the Company is under new ownership and management effective January 2, 2003. The Company was purchased by its new owners as a shell company with business prior to 2003 retained or reinsured by the previous owners.

SUMMARY OF RECOMMENDATIONS

Examination recommendations as of December 31, 2004, consisted of the following:

Accounts And Records

It is recommended that the Company continue to implement its action steps in response to the INS Services, Inc. findings and recommendations regarding the Company's IT operations. (Page 14)

CONCLUSION

The following schedule shows the results of this examination and the results of the prior examination with changes between the examination periods. The Company was purchased by its new owners effective January 2, 2003 as a shell company with business prior to 2003 retained or reinsured by the previous owners.

<u>Description</u>	December 31, <u>2004</u>	December 31, <u>2000</u>	Increase (Decrease)
Admitted Assets	\$84,505,848	\$118,686,380	\$(34,180,532)
Liabilities	30,105,415	75,827,729	(45,722,314)
Surplus as regards policyholders	54,400,433	42,858,651	11,541,782

Maxum Indemnity Company

We conclude that the company is in compliance with the surplus requirements of the Delaware Insurance Code, Section 511(a), for the kinds of insurance the Company is authorized to write. At December 31, 2004 that requirement amounted to \$750,000.

The assistance of Delaware's consulting actuarial firm, INS Consultants, Inc. is acknowledged.

Respectfully submitted,



Steven C. Gregory, CFE, FLMI, AIE
Examiner-In-Charge
State of Delaware

SUBSEQUENT EVENTS

On April 21, 2005, the Company contributed \$1.7 million in bonds and cash to its wholly-owned subsidiary, Maxum Casualty Insurance Company as additional paid-in capital/surplus.

On September 29, 2005, the Company adopted and/or amended its bylaws.

On November 17, 2005, the Company purchased an additional 1,000,000 shares of the stock in Maxum Casualty Insurance Company for \$1,000,000.

The purpose of additional investments in Maxum Casualty Insurance Company on April 21, 2005 and November 17, 2005 were to comply with various states requirements to obtain a license to write business in the applicable jurisdiction.